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Annual Audit Report 2014

Betsi Cadwaladr University Health Board

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Status of report

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The team who assisted me in the preparation of this report comprised Matthew Edwards, Dave Thomas, Mandy Townsend and Mike Usher.

Contents

Summary report

1. This report summarises my findings from the audit work I have undertaken at Betsi Cadwaladr University Health Board (the Health Board) during 2014.

2. The work I have done at the Health Board allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Health Board's arrangements to secure efficiency, effectiveness and economy in its use of resources.

3. My audit work has focused on strategic priorities as well as the significant financial and operational risks facing the Health Board, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and their factual accuracy agreed with officers and presented to the Audit Committee. The reports I have issued are shown in Appendix 1.

4. The Health Board has faced a number of significant challenges over the last 18 months. My joint review with Healthcare Inspectorate Wales (HIW) in 2013 identified serious governance deficiencies. Subsequent changes to the composition of both the Board and the executive team provided major leadership hurdles, with interim arrangements for much of the last year. The quality concerns in some services and the scale of the financial gap all demand management attention, and emphasise the need to rebuild public confidence. The Health Board did not submit an integrated medium term plan (IMTP) earlier in 2014, and in November 2014 the Welsh Government increased the Health Board's escalation status.

5. This report has been agreed for factual accuracy with the Chief Executive (CEO) and the Director of Finance. It will be presented to the February 2015 Board meeting and a copy provided to every member of the Health Board. We strongly encourage wider publication of this report by the Health Board. Following Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.wao.gov.uk).

6. The key messages from my audit work are summarised under the following headings.

Audit of accounts

7. I have issued an unqualified opinion on the 2013-14 financial statements of the Health Board, although in doing so I have brought several issues to the attention of officers and the Audit Committee. Section 2 of this report sets out these matters in detail.

8. In addition, I placed a narrative report on the Health Board's financial statements alongside my audit opinion. My report draws attention to the additional funding received by the Health Board primarily to enable it to meet its financial targets and the failure to have its three-year plan approved by Ministers at the time of my certificate.

9. I have also concluded that:

- the Health Board's accounts were properly prepared and materially accurate;
- the Health Board had an effective control environment to reduce the risk of material misstatements to the financial statements; and

- the Health Board's significant financial and accounting systems were appropriately controlled and operating as intended, although there are some system weaknesses which require management action.

10. The Health Board achieved financial balance at the end of 2013-14, incurring net expenditure of £1.229 billion, in line with its final resource limit. This included £2.25 million of resource brokerage provided by the Welsh Government at the year-end, which is repayable in 2014-15. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

Arrangements for securing efficiency, effectiveness and economy in the use of resources

11. I have reviewed the Health Board's arrangements for securing efficiency, effectiveness and economy in the use of its resources. My Structured Assessment work has examined the robustness of the Health Board's financial management arrangements, the adequacy of its governance arrangements, and the progress made since last year on quality governance and arrangements for measuring and improving patient/user experience. Performance audit reviews have also been undertaken on specific areas of service delivery. This work has led me to draw the following conclusion; despite progress made in some areas, significant challenges remain around finances, resolving historical governance issues, and some aspects of performance.

The Health Board is yet to develop a sound and sustainable approach to either in-year or medium-term financial management

12. The Health Board's actions coupled with additional Welsh Government in-year resource funding and brokerage enabled it to meet its 2013-14 revenue resource limit, but its approach to financial management was not sustainable. The Health Board has also failed to deliver a sound and sustainable approach to financial management in 2014-15 and is at very significant risk of not achieving financial balance for this financial year. However, progress has been made in recent months on the in-year transparency and structure of financial plans, particularly savings plans, to support delivery of the financial position reported to the Welsh Government.

The Board has taken steps to strengthen governance arrangements, but the scale of the challenge remains significant and the pace of change needs to further increase

13. My Structured Assessment work found that the Health Board has yet to clearly and publically define the future configuration of clinical services in North Wales and has set an ambitious target of setting out service reconfiguration plans within the new IMTP. Although the new management structure has been designed and consulted upon, it is not yet fully implemented, which compounds uncertainty within the organisation, and the timeframe for full implementation is challenging. Whilst Board administration has improved, overall Board assurance processes need further strengthening in some important areas. Positively, the Board introduced a new integrated quality and

performance report in November 2014 and has plans to develop management reporting further. The new Chief Executive Officer (CEO) and Chief Operating Officer (COO) have strengthened performance management arrangements, and whilst there are signs of progress against some national targets, performance against others remains challenging. The overall pace of change remains a concern, although some important progress has been made in recent months.

My performance audit work has identified that the Health Board continues to face a number of significant challenges and will need to tackle issues relating to internal capacity, capability and culture in order to secure the improvements required

14. My work highlighted the following key messages:

- The Health Board recognises it has had issues with planning, change management and wider stakeholder engagement, although there are indications of positive progress in recent months.
- The Health Board does not have a clear strategy for its district nursing service. The Health Board has a limited understanding of demand, a lack of assurance that staff are effectively deployed and an inability to monitor and report on performance, quality and safety. Combined, these factors mean that the potential of the District Nursing Service to help shift the balance of care towards the community is unknown.
- Whilst there has been a positive investment and focus on clinical coding within the Health Board, a lack of consistent coding processes, low clinical engagement and slow access to medical records could potentially affect the accuracy of clinical coded data.
- On orthopaedic services, I found that increasing demand and a need to use existing resources more effectively are resulting in long waits for outpatient appointments, diagnostic tests and inpatient treatment within orthopaedics. Once patients are admitted they generally have a short hospital stay, although inpatient resources could be better utilised and some outcomes following surgery need to improve.
- The Health Board shows signs of progress across many of the areas in which I have previously made audit recommendations, but there remains a significant amount of work to do and significant cultural and organisational barriers to overcome.

15. We gratefully acknowledge the assistance and co-operation of the Health Board's staff and members during the audit.

Detailed report

About this report

16. This Annual Audit Report to the Board members of the Health Board sets out the key findings from the audit work that I have undertaken between December 2013 and November 2014.

17. My work at the Health Board is undertaken in response to the requirements set out in the 2004 Act. That act requires me to:

a) examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;

b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and

c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

18. In relation to (c), I have drawn assurances or otherwise from the following sources of evidence:

- the results of my audit work on the Health Board's financial statements;
- work undertaken as part of my latest Structured Assessment of the Health Board, which examined the arrangements for financial management, governance and accountability, and use of resources;
- my performance audit examinations undertaken at the Health Board;
- the results of the work of other external review bodies, where they are relevant to my responsibilities; and
- other work, such as data-matching exercises and certification of claims and returns.

19. I have issued a number of reports to the Health Board this year. The messages contained in this Annual Audit Report represent a summary of the issues presented in these more detailed reports, a list of which is included in Appendix 1.

20. The findings from my work are considered under the following headings:

- Section 1: Audit of accounts
- Section 2: Arrangements for securing economy, efficiency and effectiveness in the use of resources

21. Appendix 2 presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee that was set out in the Annual Audit Outline.

22. Finally, Appendix 3 sets out the significant financial audit risks faced by the Health Board, as highlighted in my Annual Audit Outline for 2014 and how these were addressed through the audit.

Section 1: Audit of accounts

23. This section of the report summarises the findings from my audit of the Health Board's financial statements for 2013-14. These statements are the means by which the organisation demonstrates its financial performance and sets out its net operating costs, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.

24. In examining the Health Board's financial statements, I am required to give an opinion on:

- whether they give a true and fair view of the financial position of the Health Board and of its income and expenditure for the period in question;
- whether they are free from material misstatement – whether caused by fraud or by error;
- whether they are prepared in accordance with statutory and other requirements, and comply with all relevant requirements for accounting presentation and disclosure;
- whether that part of the Remuneration Report to be audited is properly prepared; and
- the regularity of the expenditure and income.

25. In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

26. In undertaking this work, auditors have also examined the adequacy of the:

- Health Board's internal control environment; and
- financial systems for producing the financial statements.

I have issued an unqualified opinion on the 2013-14 financial statements of the Health Board, although in doing so, I have brought several issues to the attention of officers and the Audit Committee and placed a narrative report alongside my audit opinion

The Health Board's accounts were properly prepared and materially accurate

27. The draft financial statements were produced for audit by the agreed deadline of 2 May 2014 and were of a high standard. We received information in a timely and helpful manner, and we found the information provided to be relevant, reliable, comparable, material and easy to understand. The significant estimates included within the financial statements relate primarily to accruals (primary care expenditure and holiday pay), and provisions (Continuing Health Care, clinical negligence, personal injury and others). We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. We

encountered no significant difficulties during the audit and were not restricted in our work.

28. I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on 3 June 2014. Exhibit 1 summarises the key issues set out in that report.

Exhibit 1: Issues identified in the Audit of Financial Statements Report

Issue	Auditors' comments
The Health Board's financial management arrangements were undermined on a number of occasions during the year	I reported that the Health Board's Standing Financial Instructions (SFIs) were breached on a number of occasions during the year. I was satisfied that none of those breaches, either individually or in totality, adversely impacted on the regularity opinion, although I noted concerns that failures to adhere to SFIs serves to undermine the effectiveness of the Health Board's governance. I am also aware of the ongoing Internal Audit and other review work on the Ysbyty Glan Clwyd capital programme, and my team is currently monitoring the progress of that work. I was satisfied that this did not impact on my audit of the 2013-14 accounts.
The draft Annual Governance Statement (AGS) required re-editing	The Health Board submitted the draft AGS to my team on 7 May 2014, in line with the agreed Welsh Government deadline. Whilst the draft AGS reflected the template format issued by the Welsh Government, further re-editing was required to improve the structure and flow of the document to assist the reader. As a consequence, the Health Board provided a revised AGS on 22 May 2014.
The accounting treatment of legacy lease arrangements transferred from predecessor bodies	In 2012-13 I reported an issue relating to the accounting treatment of a legacy lease arrangement for Fron Heulog School of Nursing at Bangor University, which was inherited from Powys Local Health Board in 2009. The Health Board agreed to review the treatment of Fron Heulog and other legacy arrangements as a matter of urgency to ensure full and appropriate disclosure in the 2013-14 financial statements. Whilst negotiations have been ongoing with NHS Wales Shared Services – Facility Services, the matter was not resolved in time to inform the preparation of the 2013-14 financial statements. On the basis of the information available to us we concluded that the financial statements were not materially misstated.

Issue	Auditors' comments
The accounting treatment of indexation	I reported that the Health Board was one of a number of Welsh health bodies that did not report any reversal of impairments during the year, contrary to the requirements of the Welsh Government's Manual for Accounts. The Health Board's asset register credits all indexation to the revaluation reserve irrespective of whether an asset has been previously impaired. The Health Board informed me that it was unable to quantify the impact of any potential misstatement as it would involve an extensive manual exercise. However, it had requested its software provider to develop a programme update to resolve the issue in 2014-15. This should enable the Health Board to quantify the impact of any potential misstatement. On the basis of the information available to us we concluded that the financial statements were not materially misstated.

29. As part of my financial audit, I also undertook the following reviews:

- **Whole of Government Accounts return** – I concluded that the counterparty consolidation information was consistent with the financial position of the Health Board at 31 March 2014 and the return was prepared in accordance with the Treasury's instructions; and
- **Summary Financial Statements and Annual Report** – I concluded that the summary statements were consistent with the full statements and that the Annual Report was compliant with Welsh Government guidance.

30. The Health Board's draft 2013-14 charitable financial statements were prepared in May 2014. The early preparation of the draft financial statements built on the early closure arrangements established by the Health Board in previous years. I issued an unqualified opinion on the charitable financial statements on 27 June 2014.

The Health Board had an effective control environment to reduce the risks of material misstatements to the financial statements

31. My work focuses primarily on the accuracy of the financial statements, reviewing the internal control environment to assess whether it provides assurance that the financial statements are free from material misstatement whether caused by error or fraud. This includes a review of the main accounting system, budgetary control and closedown processes and an assessment of the computer-based infrastructure and application controls.

32. My team also considered the work and role of internal audit as part of this assessment. I did not identify any material weaknesses in the Health Board's internal control environment.

The Health Board's significant financial and accounting systems were appropriately controlled and operating as intended, although there are some system weaknesses which require management action, in particular Standing Financial Instructions were breached on a number of occasions

33. I did not identify any material weaknesses in the Health Board's significant financial and accounting systems which would impact on my opinion. There were a number of detailed issues arising from my financial audit work and these were reported to the Director of Finance in July 2014. In particular, there were a range of very significant budgetary pressures and the Health Board's financial management arrangements were undermined on a number of occasions during the year:

34. As in the previous year, the Health Board's Standing Financial Instructions (SFIs) were breached on a number of occasions during the year, undermining the effectiveness of the Health Board's governance. We are also aware of the ongoing Internal Audit and other review work in respect of the Ysbyty Glan Clwyd capital programme, and we are currently monitoring the progress of that work.

35. Internal Audit also reported some system weaknesses which require ongoing management action. Action plans have been developed to strengthen the control weaknesses identified in these reports and progress is scrutinised by the Audit Committee.

36. I also concluded that budgetary control and monitoring arrangements are sufficiently robust to provide us with assurance that the financial statements were free from material misstatement. However, the Health Board needs to address its significant financial challenges in 2014-15 and beyond. I set out more detail about the financial position and financial management arrangements in Section 2 of this report.

Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources

37. I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:

- reviewing the Health Board's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance;
- assessing the effectiveness of the Health Board's governance arrangements through my Structured Assessment work, including review of the progress made since last year on quality governance and arrangements for measuring and improving patient/user experience;
- specific use of resources work on district nursing, clinical coding, orthopaedic services and local audit reviews; and

- assessing the progress the Health Board has made in addressing the issues identified by previous audit work on follow up of previous recommendations (on ward staffing, locum doctors and outpatient services), follow up Theatres and Day Surgery and my Joint Review of Governance Arrangements Follow Up work with Healthcare Inspectorate Wales and reviewing the Health Board's arrangements for tracking external audit recommendations.

38. The main findings from this work are summarised under the following headings.

The Health Board is yet to develop a sound and sustainable approach to either in-year or medium-term financial management

The Health Board's actions coupled with additional Welsh Government in-year resource funding and brokerage enabled it to meet its 2013-14 revenue resource limit, but its approach to financial management was not sustainable, with a reliance on non-recurrent savings

39. The NHS in Wales has faced significant financial challenges over recent years with 'flat cash' settlements and increased demand on services. Based on an anticipated resource allocation of £1.181 billion, the Board estimated its initial 2013-14 funding gap to be £78 million. The Health Board identified a range of savings plans in place at the start of the 2013-14 financial year to reduce this gap by £38.9 million, leaving an estimated shortfall of £39.1 million to be met by other unspecified efficiency measures.

40. Throughout 2013-14, both the Health Board and Welsh Government paid close attention to the monthly reported outturn and to the forecast year-end deficit position. Forecasts were regularly updated and, as is usual, various adjustments to the Health Board's resource limit were made by the Welsh Government to reflect specific agreed activities undertaken and their costs. The net effect of these adjustments after the first six months of the year was a revised resource limit, of £1.197 billion, and a resultant forecast year-end deficit of £29.0 million.

41. In October 2013, the Minister for Health and Social Services announced additional resource funding of £150 million for NHS Wales, to 'meet new demands and pressures in the current financial year'. The Health Board's share of this was £30.9 million which, after taking account of other cost pressures that the Health Board had not previously identified, contributed to a decrease in its forecast year-end deficit at month seven to £9.0 million. By month 10, the forecast year-end deficit had reduced to £7.5 million, and by month 11 to just £4 million.

42. On 11 April 2014 the Health Board reported a forecast overspend of £2.25 million against its 2013-14 resource limit, and for the first time, applied to the Welsh Government for resource brokerage to cover this deficit. The Health Board received £2.25 million from the Welsh Government to offset the overspend which it is required to repay during 2014-15. The Health Board also failed to meet its savings target in 2013-14. Savings of approximately £40 million were identified and delivered, and whilst this was a significant achievement, there was a heavy reliance on non-recurrent

savings. Additional savings schemes were not identified to fully address the funding gap.

The Health Board has yet to establish a sound and sustainable approach to financial management in 2014-15 and is at significant risk of not achieving financial balance

43. The NHS Finance (Wales) Act 2014 has introduced a more flexible finance regime. It provides a new legal financial duty for local health boards to break even over a rolling three financial years rather than each and every year. The act allows local health boards to focus their service planning, workforce and financial decisions and implementation over a longer, more manageable, period and moves away from a regime which encourages short-term decision making around the financial year. The financial flexibilities are, however, contingent upon the ability of NHS bodies to prepare suitably robust IMTPs, and the formal approval of those plans by Welsh Ministers.

44. The statutory duty to compile a rolling three-year integrated medium-term plan, starting from 2014-15, approved annually by the Welsh Government is an essential foundation to the delivery of sustainable quality health services. However, the Minister for Health and Social Services confirmed that he was unable to approve the Health Board's three-year plan. The Welsh Government identified significant concerns with the proposed plan submitted by the Health Board as it did not meet its requirements. As a consequence the Health Board breached this new statutory duty, and subsequently developed a one-year plan.

45. The one-year plan for 2014-15 highlighted the extreme financial planning and management challenges facing the Health Board. It identified a financial gap of over £75 million between its annual resource limit and its planned net expenditure for 2014-15. This included the repayment of the £2.25 million brokered from the Welsh Government in 2013-14. The Health Board subsequently revised the 2014-15 savings target (the financial gap) in August 2014 to £92 million (equivalent to 7.4 per cent of the revenue budget) following the identification of the need for additional investment to deliver referral to treatment targets.

46. During the first four months of 2014-15, the Health Board consistently forecast a £35 million year-end deficit for the 2014-15 financial year. A number of inconsistencies were also identified between the narrative and figures contained within the Health Board's finance reports for July and August 2014. The Health Board subsequently revised its reported year-end 'most likely' annual overspend to the Welsh Government in September 2014, nearly doubling it to £63 million.

47. At 30 November, the Health Board's forecast most likely annual overspend had remained at £63 million. The magnitude of the uplift in the forecast figures between August and September 2014 undermines confidence in the Health Board's financial reporting. Whilst the Health Board's internal forecasting had identified the increased likely overspend, it continued to report publically for several months a lower figure which it knew to be unrealistic.

48. Insufficient savings plans have been identified and delivered to date and the Health Board reported that it had overspent by over £49 million in the year to November 2014. The achievement of 2014-15 savings plans are proving difficult to achieve. By November 2014 the Health Board had identified over £33 million of cash releasing savings schemes and nearly £7 million in cost avoidance measures, representing only 44 per cent of the savings required. A savings gap of nearly £52 million remains.

49. The Health Board is also behind on delivering its planned cost reductions. There remain significant financial pressures in Primary, Community and Specialist Medicine, Surgery and Dental and Mental Health and Learning Disabilities CPGs. The Health Board faces a range of additional cost pressures, including monthly agency (medical and nursing) costs. The use of nursing agency within unscheduled care increased significantly between August and October 2014 and costs are running significantly higher than in the previous financial year.

50. The Health Board has identified a range of mitigating actions including the identification of additional savings and the use of a 'Referral to Treatment' reserve. They are unlikely to be sufficient to bridge the financial gap during the remainder of the financial year, despite the anticipated additional financial support from the Welsh Government. This is likely to reduce the overall in-year financial risk but will still leave a residual financial gap that the Health Board will need to address in the last four months of the financial year. The Health Board should ensure that any short-term savings actions do not compromise the financial health of the organisation in future years. It will also need to ensure that short-term savings measures do not compromise the clinical safety or access to services for those with the greatest clinical need.

51. Looking ahead, the Health Board faces unprecedented financial challenges in the medium term – its annual 2014-15 Budget Strategy projects increasing financial challenge growing to £186 million over the three-year period to 2016-17. To date, there has been only limited progress on the urgent need to develop financially and clinically sustainable service models, together with greater support service integration.

The Board has taken steps to strengthen governance arrangements, but the scale of the challenge remains significant and the pace of change needs to further increase

52. This section of the report considers my findings on governance and board assurance, presented under the following themes:

- progress in responding to governance issues identified in our joint review of governance arrangements follow-up with Healthcare Inspectorate Wales in spring 2014;
- strategic planning;
- organisational structure;
- board assurance and internal controls; and
- performance management.

Follow-up of our joint review of governance arrangements, with Healthcare Inspectorate Wales, reported some progress in June 2014, but the pace of change remained a concern

53. My team worked closely with Healthcare Inspectorate Wales staff to follow up our 2013 joint review of governance arrangements in the spring of this year. In July 2014, we reported[1] that: '*Whilst there was evidence of progress, some of it significant, a number of the fundamental challenges that we identified last year still existed and the Health Board still had considerable work to do before its governance and management arrangements could be regarded as fully fit for purpose.'*

54. Our joint report acknowledged the hard work that had been done by the Health Board to address the issues we raised last year in the context of an extended period of change and uncertainty over senior leadership structures. However, it was clear that significant challenges remained, and needed to be addressed with urgency if the Health Board was to rebuild confidence in its abilities amongst its staff, external stakeholders and the public.

55. I shall be undertaking further review of progress with Healthcare Inspectorate Wales during spring/summer 2015.

The Health Board has yet to clearly and publically define the future configuration of clinical services in North Wales and has set an ambitious target of setting out service reconfiguration plans within the new IMTP

56. The Health Board did not submit a statutory three-year IMTP in March 2014, although it was not the only health board in this position. I noted that the Health Board's one-year plan was ambitious in terms of the scale of the actions required to break even. There is now an emerging vision on future service configuration, but as yet there is a lack of detail and an absence of clear plans for formal discussion in the public domain. The Health Board intends to set out service reconfiguration plans within its new IMTP but the timescale for this is ambitious. The Health Board recognised its own capacity and expertise gaps, and commissioned Deloitte to support development of the new IMTP for January 2015. I also recognise that the Health Board has done a lot of work behind the scenes to support the development of the IMTP, with patients, partners and politicians. The IMTP presents an opportunity to start to rebuild stakeholder confidence.

A new organisational structure has been designed and consulted upon, although it is not yet fully implemented, which compounds uncertainty, and the timeframe is challenging

57. The long-standing weaknesses in CPG-based organisational structure need to be addressed urgently, and I recognise that there has been some progress towards this goal. The time taken to resolve the Chief Executive appointment impacted on the pace of change, and over the last six months other key new executive appointees started at

[1] *An Overview of Governance Arrangements*: http://www.wao.gov.uk/publication/overview-governance-arrangements-betsi-cadwaladr-university-health-board

the Health Board, but at the time of this report, the new executive team is not yet fully in place, and further changes to reporting lines and responsibilities are planned. The new CEO necessarily fully consulted on the proposed new organisational structure, and engaged his workforce to seek to ensure that the new structure is both owned and understood. However, this important step also impacted on pace, prolonged uncertainty as the structure is not yet in place, and created pressure on timescales, making full implementation this financial year look challenging.

58. In my view, significant risks around upheaval will remain extant until the new structure is in place.

Whilst Board administration has improved, overall Board assurance processes need further strengthening

59. I have observed improvements to the quality of Board papers, their timeliness and in the conduct of Board meetings, but there remains further scope to shorten meetings, improve clarity of papers, and strengthen assurance reporting from Board Committees. My team found evidence that internal escalation of concerns is happening, and that important challenges are now being brought to the Board. However, although issues are now being exposed and aired in public, further due diligence work is needed to obtain wider assurances and ensure all historic issues are exposed.

60. The Health Board sought external advice to strengthen its Board assurance and risk frameworks, and committee structures, with implementation planned for early in 2015. This included a comprehensive review of the risk register and the Board's approach to risk management and risk appetite. My team noted that not all significant risks were on the risk register in October 2014 and some language was opaque (eg, risk descriptions of staffing risks which did not make clear the extent of reliance on locum and agency staff). However, the new format implemented in November 2014 is a significant step forward, in terms of coverage of known significant risks, the format and clarity of language.

61. My performance work demonstrates that internal controls have improved, but further progress is needed. For example, Clinical Audit is now more structured, but there is scope to link clinical audit more closely with risk and the Health Board's strategy. The 'must do' National Clinical Audits are now in place, and there is evidence of audits stimulated by known areas of risk or concern in 2014, with a clinical audit plan being regularly considered by the Audit Committee during 2014. However, a formal structured clinical audit strategy linked to the Health Board's strategy, clinical effectiveness and formally identified needs, rather than individual clinicians' interests, remains a gap. My staff also identified gaps in assurance processes to monitor progress on implementing recommendations from external sources.

62. My team's work has identified signs of progress on transparent public reporting. In particular, the Annual Quality Statement was much stronger this year, in terms of the development process, fuller coverage of mandated areas, and importantly in the public-facing presentation and language.

63. As regards capital expenditure, the governance weaknesses exposed by the Ysbyty Glan Clwyd asbestos replacement project indicated a lack of robust and appropriate challenge and oversight, which the Health Board has since sought to address. It has also commissioned an independent external review of its revised capital programme and project management arrangements, and the results of that review are expected early in 2015. If this provides a measure of positive assurance about the robustness of the revised arrangements, then that in turn should assist the Health Board in rebuilding the confidence of the Welsh Government, potentially unlocking future bids for capital funding that will align with the Health Board's IMTP.

64. As part of my commitment to help secure and demonstrate improvement through audit work, I have reviewed the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work during 2012, 2013 and 2014. This work has found that although from 2012 onwards the Audit Committee established tracking arrangements for my recommendations, management are not always timely in updating this tool, neither is it always clear that actions will deliver the desired results. My team will continue to work with the health board in 2015 to ensure that responses are both adequate to secure the desired improvement, and are sufficiently timely.

The Board introduced a new integrated quality and performance report in November 2014 and has plans to develop management reporting further

65. The Board held a development session on 30 October to outline revised management information requirements to underpin board assurance and decision making. This work resulted in a new performance report produced from November 2014. The new report is still evolving, but positively:

- Information is well summarised with appropriate triangulation of findings from different sources. In addition, activity against plan, commissioned activity and local metrics are starting to be included.
- Further iterations are planned to expand quality and commissioning metrics, and the intention is that these will address previous concerns around reporting on quality of commissioned services, including community metrics, and primary care.
- Operational management are now using the same metrics and data as the Board. This tiered approach reduces the Board to Ward gap by creating a shared understanding of performance.

66. The next step is an integrated governance report, and my staff will monitor these evolving arrangements over 2015.

The new Chief Executive and Chief Operating Officer have strengthened performance management arrangements, and whilst there are signs of improvements in performance against some national targets, performance against others remains challenging

67. The Corporate Directors Group (CDG) replaced the executive team from October 2014; this includes both executives and board level directors, and meets weekly. At the same time, the former Board of Directors was stood down, and other senior management meetings rationalised. In addition, the key executives, Chief Operating Officer and Director of Finance now hold monthly 'Performance meetings' with CPGs, in which the intensity of scrutiny is increased for struggling CPGs.

68. The proposed new organisational structure is intended to strengthen accountabilities further, and my staff will review both the theory and operation of this new structure in 2015. I reported in the joint review follow-up that a new accountabilities framework was developed earlier in 2015, but this will need revisiting once the new organisational structure is in place.

69. However, prospectively, the new performance management arrangements face substantial challenges. Specifically:

- the Health Board's performance against RTT targets has deteriorated since 2013 and activity is not meeting the Health Board's own improvement trajectories;
- only 58 per cent of priority areas are on target (from the Health Board's own November 2014 performance report); and
- although there are some early signs of improvement in performance against Tier One targets (eg, stroke, safe care, and prevention), turnaround in performance is needed across a wide range of other targets (cancer (62 day target), emergency care, RTT and finances).

The overall pace of change remains a concern, although some important progress has been made in recent months

70. Individual executives have led progress across a number of areas. A good example of this is the improvement in quality and safety arrangements, with strengthened scrutiny at both Health Board and CPG level and examples of action taken where necessary. I noted potential for filtering of key messages by the executive Quality Assurance Executive, although this did not appear to be happening in practice it remains a risk which the Health Board will need to manage. In addition, the timing and sequencing of meetings and assurances provided to the Quality and Safety Committee took time to develop. My staff will monitor progress throughout 2015.

71. In addition, I found that capturing and learning from user experience, incidents, and complaints have improved significantly since late 2013, and I recognise that much of this progress is due to bringing them together under one Executive lead and increasing senior capacity. However, progress on capturing and learning from staff concerns is not yet apparent.

72. However, areas which required concerted action across the Board or the whole executive team have not progressed at the same pace. Whilst I noted attendance at Board and Committees is now tracked and reported, and that Board and executive team development is underway, other developments, such as committee assurance papers, await the new committee structure. Furthermore, capacity for scrutiny increased with new Board and Committee Advisor appointments, and there will be four IM appointments in 2015. The impact of these changes will take time. Likewise, trust will take time to rebuild.

73. In late 2014, a result of concerns around the pace of change across a number of areas, and the deteriorating financial position the Welsh Government escalated the Health Board to the second highest level of intervention: 'targeted intervention'[2]. This intervention is currently in an initial reporting and diagnosis phase, but is ultimately intended to bring additional capacity and new capability to the senior management team and support the new executive team in increasing the pace of change within the Health Board.

My performance audit work has identified that the Health Board continues to face a number of significant challenges and will need to tackle issues relating to internal capacity, capability and culture in order to secure the improvements which are required

The Health Board recognises it has had issues with planning, change management and wider stakeholder engagement, although there are indications of positive progress in recent months

74. My Structured Assessment work has reviewed how the Health Board manages a number of key enablers of efficient, effective and economical use of resources. This work indicated that the Health Board made progress on a number of areas relating to the management of resources that I highlighted in previous years' Structured Assessments, but it continues to face a number of significant challenges and will need to tackle issues relating to internal capacity, capability and culture in order to secure the improvements which are required. Key findings are summarised in Exhibit 2.

[2] *Escalation and intervention arrangements in the NHS*, Welsh Government, March 2014. http://wales.gov.uk/topics/health/publications/health/guidance/escalation/?lang=en

Exhibit 2: Structured Assessment – key enablers of effective use of resources

Issue	Summary of findings
Change management capacity	The Health Board recognises that its planning and change management arrangements have not been effective and is in the process of establishing new arrangements. In particular, planning for service change remains a challenge with the IMTP not submitted in 2014, and additional support commissioned to develop the 2015-2018 IMTP. As change management arrangements have not been effective to date in embedding new models of service delivery the Chief Operating Officer is revisiting the programme management office, and improvement and turnaround functions alongside the review of operational management structures (paragraph 56). My Structured Assessment work is ongoing and this area will be assessed again in 2015.
Workforce planning	Workforce issues remain challenging in the absence of service reconfiguration and the high number of temporary staff is a concern. Although guidance and support from the central workforce department is in place, capacity is limited within that team and the operational teams lack both capacity and capability in the technical aspects of workforce planning. Furthermore, the absence of a model for service configuration to plan around makes workforce planning more difficult. Significant workforce challenges remain, with a particular focus on medical and nursing recruitment. Bank and agency spend rising, likely to exceed 2013-2014's £20 million. Medical staffing rotas contain 20 per cent locums and some rotas are completely dependent on locum doctors. Recruitment remains a challenge with gaps in key professions and a long lead time to fill a vacancy – but positive progress on nursing recruitment in last few months from EU. Workforce measures are also challenging with appraisal and training information unreliable in some areas such as Community nursing, and headline rates for these measures poor in many areas. Notably, although sickness levels are marginally above target at 5.1 per cent, this does compare well with the rest of Wales.

Issue	Summary of findings
– Estates And Assets	My Structured Assessment Work Is Ongoing And This Area Will Report In 2015.
– Partnerships and Community engagement	Work is underway to rebuild confidence and trust in the Health Board amongst wider stakeholders in North Wales. Local Government partners are positive about the proposed new structure and the new leadership. However, the public and their proxies perceive a historic lack of candour and transparency – this legacy will take time to overcome. Furthermore, as the new structure is implemented the HB has more work to do on: • designing new ways of positively engaging with the wider North Wales community; • increasing openness and transparency to help rebuild relationships and encourage rational debate on what sustainable services look like; • the clarity of roles and responsibilities for public and stakeholder engagement; and • using feedback on current services and future plans to inform priorities and service monitoring (co-production).
Use of technology	My Structured Assessment work is ongoing and this area will report in 2015, alongside my findings on other IT audit work, including information governance and data back-up.

The Health Board does not have a clear strategy or sufficient information on its district nursing service; hence, the potential of the service to shift the balance of care towards the community is unknown

75. I came to this conclusion because:

- the Health Board does not yet have clear plans for its district nursing service and is not clear as to how the service will support broader aims to shift the balance of care away from hospitals into the community;
- a limited understanding of demand makes it difficult for the Health Board to assess whether workforce numbers and skills are sufficient;
- the Health Board cannot take assurance that its district nursing staff are effectively deployed; and
- the Health Board is currently unable to systematically assess, monitor and report on the performance, quality and safety of its district nursing service, and has only informal mechanisms to identify and share good practice.

Whilst there has been a positive investment and focus on clinical coding within the Health Board, a lack of consistent coding processes, low clinical engagement and slow access to medical records could potentially affect the accuracy of clinical coded data

76. The Health Board recognises the importance of clinical coding but resources may be insufficient, and stronger links are needed to medical records, and the Board needs to focus more on the accuracy of clinical coded data in its reviews. I recognised that clinical coding is a corporate priority with accredited performance but there is little focus on the accuracy of coded data. In addition, accountability for coding is clear but there are opportunities to improve engagement between coders and medical records. Positively, there is a clear commitment to invest in clinical coding with a positive focus on training and development, although the level of resource allocated to coding may not be sufficient.

77. The effectiveness of the coding process is affected by the low levels of clinical engagement with coding staff in some parts of the Health Board, slow access to medical records and a lack of consistent coding processes. In particular, the Health Board historically lacks an overarching single clinical coding policy. My team noted that access to electronic information was good. However, Health Board staff were experiencing delays in accessing some records, both at site and speciality levels within Wrexham Maelor and Ysbyty Gwynedd. In addition, medical records are of variable quality across the Health Board, with the Wrexham Maelor site of a higher standard, however, the size of many medical records is an issue. My team also found that the approach to coding is not consistent and the time it takes to code varies by site and speciality.

78. Clinical Coded data is used appropriately with good overall performance against Welsh Government standards, on validity and timeliness. However, there were areas for improvement identified related to consistency standards and accuracy, especially at Ysbyty Gwynedd, and the Board is not sufficiently aware of the accuracy of coding implications, which could be made more explicit.

On orthopaedic services, I found that increasing demand and a need to use existing resources more effectively are resulting in long waits for outpatient appointments, diagnostic tests and inpatient treatment within orthopaedics. Once patients are admitted they generally have a short hospital stay although inpatient resources could be better utilised and some outcomes following surgery need to improve

79. My conclusion on the efficiency, effectiveness and economy of orthopaedic services at the Health Board is based upon the data gathered as part of my national review of orthopaedic services in Wales, due to be published early in 2015.

80. My team collected data and information across the whole patient pathway, which revealed some challenges at the Health Board. For example, investment in primary care is reducing at a time when GP referral rates are increasing and although there are well-established Clinical Musculoskeletal Assessment and Treatment Services in place, they are struggling to meet the increasing demand. Although physiotherapy services are able to meet demand, some aspects of outpatient services are inefficient,

for example, the Health Board has comparatively long waits for a first outpatient appointment, and waits for radiology tests can be long, particularly in relation to Magnetic Resonance Imaging scans. Pre-operative assessment arrangements are in place and hospital stay is generally shorter than the rest of Wales but more could be done to reduce waits for admission, increase day-case rates and bed occupancy and improve theatre utilisation across the Health Board. Follow-up arrangements generally work well although outcomes from surgical intervention are mixed both across the Health Board and in comparison with the rest of Wales.

81. My team will work with the Health Board to produce tailored recommendations following publication of my national report in 2015.

The Health Board shows signs of progress across many of the areas in which I have previously made audit recommendations, but there remains a significant amount of work to do and significant cultural and organisational barriers to overcome

82. In addition to reviewing the effectiveness of the Health Board's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work as discussed in paragraph 63, my work has found that:

- the Health Board shows signs of progress across each of the reviewed areas, with more than twenty per cent of recommendations complete across ward staffing, outpatient services and locum doctors follow up reviews;
- a significant amount of work remains to be done in order to provide positive assurance of full implementation of my recommendations;
- the Health Board had significant organisational and cultural barriers to overcome in order to fully evidence progress and embed change across the organisation, particularly around the CPG model and ensuring accountability for actions; and
- the Health Board was not systematically measuring the outcomes from its change programmes, nor using this evidence to drive further change or disseminate learning across the organisation.

83. During the last 12 months, I have also undertaken detailed follow-up audit work to assess the progress that the Health Board has made in addressing concerns and recommendations arising from previous audit work in specific areas of service delivery. Due to the themes emerging from my follow-up work I reported ward staffing, outpatient services and locum doctors follow-ups as one overarching report with detailed appendices on each topic.

84. The findings from all of my follow-up work are summarised by topic in Exhibit 3.

Exhibit 3: Progress in implementing audit recommendations

Area of follow-up work	Conclusions and key audit findings
Ward staffing	From the follow-up of the 2010 review of Ward Staffing, I assessed one recommendation as complete, three as partially complete, and one as no longer relevant to current circumstances. In particular, evidence of tangible progress against recommendations was fragmented. Individual Clinical Programme Groups (CPGs) returned self-assessments, which varied in detail and focus, making it difficult to pull together a cohesive corporate picture, and emphasising the significant organisational barriers to progress and change across the organisation. My key findings included: • Nurse staffing levels reduced in 2011, leading to a heavy reliance on bank and agency nursing to support safe staffing levels. After I reported in mid-2014, nurse staffing levels regained and in some cases exceeded pre-2011 levels • The Health Board is now aware of its staffing levels in terms of skill-mix and nurse:patient ratio and was able to demonstrate that both nursing skill-mix and nurse:patient ratios were reviewed in response to Royal College of Nursing and Chief Nursing Officer safe staffing guidelines. At the time of my audit the identified shortfall was actively being recruited, and in the interim the health board put in place processes to review nurse staffing levels and ensure that they are safe. • Although nursing staff costs are reported in a number of fora there was no evidence of a recent comparison of nursing staff costs or cost-per-bed indicators. VERS[3] forecasts were available for 2014-17, although the impact of VERS to date is not known. • Some elements of our original recommendations remain in progress and will need to be evidenced more thoroughly going forward.

[3] VERS is the Voluntary Early Release Scheme, whereby staff are paid to leave the NHS.

Area of follow-up work	Conclusions and key audit findings
Outpatient services	The Health Board's progress against my 2011 recommendations is mixed with two recommendations complete and six partially complete. One further recommendation was insufficiently evidenced for me to reach an informed judgement. With some exceptions, progress was well evidenced within the self-assessment. However, both the self-assessment narrative and supporting evidence lacked many of the definitive outcomes that would demonstrate the successful completion of the original recommendations. Despite the Outpatient Service Review, and significant progress in parts of the service, I identified significant barriers to progress, with the CPG structure complicating decision-making and slowing progress. Furthermore, the lack of an agreed clinical services strategy meant that the necessary reshaping of outpatient services was working at an individual service level rather than based on an agreed future model of services for the whole Health Board.
Locum Doctors	There is evidence of progress against my recommendations. The Medical Director takes an active role in addressing issues of locum use. The Health Board makes good use of Master Vend suppliers, and a robust infrastructure to administer locum payment is now in place. In addition, discussions are ongoing with the Deanery regarding training placements and the Health Board is working towards accommodating more multi-site flexibility. The Health Board cites change management programmes among its plans and intends to focus on care pathways as part of service redesign for the future. It is expected that these will improve the management of both capacity and demand and have a positive impact on the Health Board's reliance on locum support. I assessed three recommendations as complete and nine as partially complete. A further two recommendations were insufficiently evidenced for my team to reach a judgement. I identified significant barriers to progress. Not least the lack of an agreed clinical services strategy which not only impacts on recruitment, but also made workforce redesign and the consolidation of rotas very challenging.

Area of follow-up work	Conclusions and key audit findings
Operating theatres	There has been some progress made since 2011 but overall there has not been significant improvement and fundamental challenges, many outside the control of theatres are impeding further progress. In particular: • The Health Board has made good progress since 2011 around day surgery rates, and, positively, management structures are now clear. However, significant challenges remain with a lack of strategic direction or service configuration plans and issues with patient flow and variable practices. • While the surgical pathway now has a number of positive aspects, different operational practices, issues with capacity and the absence of robust data adversely affect theatre efficiency. • Despite good arrangements to ensure quality and safety within theatres, the Health Board has done little to monitor patient experience and implement learning from incidents.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit Deliverables document	February 2014
Audit of Financial Statements Report	June 2014
Opinion on the Financial Statements	June 2014
Audit of Financial Statements Report – Charity	June 2014
Opinion on the Financial Statements – Charity	June 2014
Opinion on the Whole of Government Accounts Return	June 2014
Audit of Financial Statements – Detailed Report	July 2014
Opinion on the Summary Financial Statements	September 2014
Performance audit reports	
Joint Review of Governance Arrangements with Healthcare Inspectorate Wales	July 2014
Operating Theatres Follow Up	August 2014
Progress on Previous Wales Audit Office recommendations (including Ward Staffing, Outpatients and Locum Doctors)	August 2014
Review of Clinical Coding	August 2014
Review of Orthopaedic Services	November 2014
Review of District Nursing	November 2014
Structured Assessment 2014	November 2014
Other reports	
Outline of Audit Work for 2014	March 2014

There are also a number of performance audits that are still underway at the Health Board. These are shown below, with estimated dates for completion of the work.

Report	Estimated completion date
ICT Diagnostic Review	March 2015
ICT Data Back Up Review	March 2015

Report	Estimated completion date
Review of Medicines Management	April 2015
Review of Outpatient Follow-up Appointments	April 2015

Appendix 2

Audit fee

The Outline of Audit Work for 2014 set out the proposed audit fee of £484,464 (excluding VAT). My latest estimate of the actual fee on the basis that some work remains in progress, is in accordance with the fee set out in the outline.

Included within the fee set out above is the audit work undertaken in respect of the shared services provided to the Health Board by the Shared Services Partnership.

Appendix 3

Significant audit risks

My Outline of Audit Work for 2014 set out the significant financial audit risks for 2014. The table below lists these risks and sets out how they were addressed as part of the audit.

Significant audit risk	Proposed audit response	Work done and outcome
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.	I completed focussed audit testing as planned on the relevant areas of the financial statements. No evidence found of biased judgements or estimates.
There is an inherent risk of material misstatement due to fraud in revenue recognition and as such this is treated as a significant risk [ISA 240.26-27].	My audit team will consider the completeness of miscellaneous income.	I completed audit work as planned and no evidence was found of material misstatement due to fraud in revenue recognition.
There is a significant risk that the Health Board will fail to meet its revenue resource limit. The month 10 position showed a year-to-date deficit of £6.9 million and forecast a year-end deficit of £7.5 million. If the resource limit is exceeded I will qualify my regularity opinion and place a substantive report on the financial statements explaining the failure and the circumstances under which it arose. The current financial pressures on the body increase the risk that management judgements and estimates could be biased in an effort to achieve the Revenue Resource Limit.	My audit team will focus its testing on areas of the financial statements which could contain reporting bias.	I reviewed the Health Board's financial management arrangements, significant financial standing issues and areas of the financial statements which could contain financial balance. I concluded that the Health Board met its financial duty but this was only achieved due to additional Welsh Government in-year resource funding and the delivery of savings, although the approach was not sustainable.

Significant audit risk	Proposed audit response	Work done and outcome
There is a significant risk that the Health Board will fail to meet its capital resource limit as capital expenditure on the redevelopment of Ysbyty Glan Clwyd is ahead of expectations. As a consequence, the Health Board obtained an additional capital allocation of £4.9 million towards its Capital Resource Limit in Month 9 and a further Welsh Government allocation is required to help meet its ongoing expenditure commitments for the remainder of the financial year. If the resource limit is exceeded I will qualify my regularity opinion and place a substantive report on the financial statements explaining the failure and the circumstances under which it arose. The current financial pressures on the body increase the risk that management judgements and estimates could be biased in an effort to achieve the Capital Resource Limit.	My audit team will focus its testing on areas of the financial statements which could contain reporting bias.	I completed focussed audit testing on the classification of expenditure as revenue or capital and no evidence was found of biased judgements. I concluded that the Health Board met its financial duty but this was only achieved due to additional Welsh Government in-year capital resource funding.
There is a significant risk that the Health Board will face severe pressures on its cash position at the year-end. The month 10 monitoring report identified a cash shortfall/balance at the year-end of £10.4 million. A shortfall of cash is likely to increase creditor payment times and impact adversely on Public Sector Payment Policy (PSPP) performance.	My audit team will audit the PSPP performance bearing in mind the cash pressures on the Health Board.	I audited the Health Board's PSPP performance. It reported that it had not met the Welsh Government's target of paying 95 per cent of the number of non-NHS creditors within 30 days of delivery. I did not identify any issues to report.
There is a risk that the Health Board will not comply with ISA 27 *Consolidated and Separate Financial Statements.*	My audit team will discuss the accounting requirements of ISA 27 with the Health Board officers to ensure they are understood and liaise with our Welsh Government audit team to agree the requirements for 2013-14.	For 2013-14 onwards it was subsequently agreed that the Welsh Government consolidated Health Board NHS Charities into their accounts. Therefore, consolidation at health board level was not required.

Significant audit risk	Proposed audit response	Work done and outcome
There is a risk that exit packages paid by the Health Board do not fully comply with the requirements of the Manual for Accounts and Managing Welsh Public Money. Such payments are considered sensitive and material by nature.	My audit team will consider the regularity, accounting treatment and disclosure of exit packages.	I reviewed the regularity, accounting treatment and disclosure of exit packages. I did not identify any issues to report.

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